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Current Support Brief

STATUS OF CHINESE COMMUNIST ECONOMIC AID TO BURMA



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CENTRAL INTELLIGENCE AGENCY

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STATUS OF CHINESE COMMUNIST ECONOMIC AID TO BURMA

On 9 January 1961 the Peoples Republic of China extended a line of credit for \$84 million* to the government of the Union of Burma. The agreement signed at that time specified that projects were to be implemented under the credit between 1 October 1961 and 30 September 1967. 1/ Until quite recently, Chinese Communist economic assistance to Burma had been limited to planning for the utilization of between one-third and one-half of the \$84 million. Since the beginning of 1963 the Chinese Communists have undertaken a number of feasibility studies and technical assistance projects under the 1961 line of credit. 2/ This recent activity, coupled with the completion of all planned surveys for construction under the credit, has led some observers to believe that construction of the various Chinese Communist projects may begin in the near future. 3/

There has been ample evidence that the Burmese press and government anticipate deliveries of substantive aid under the \$84 million credit. Although it is difficult to dispute the capacity of Burma to absorb such aid, there are many indications that the Chinese Communists are less than eager to proceed with construction. If the construction projects under the credit are to be implemented in the near future, the next year should witness a significant increase in the number of Chinese Communist economic technicians in Burma, the preparation of some of the construction sites, and the beginning of a program of commodity imports to generate counterpart funds. Thus far, there are no firm indications that drawings against the credit during the coming Burmese fiscal year** will total more than the estimated \$2 million drawn to date. It is unlikely, therefore, that activity under the \$84 million credit will prove to be of political benefit to the Chinese Communists in the foreseeable future. The Chinese will find it increasingly difficult to prolong negotiations and continue to achieve propaganda successes beneficial to the maintenance of their favored political position.

* Dollar values in this publication are given in terms of current US dollars.

** The fiscal year in Burma runs from 1 October to 30 September.

S-E-C-R-E-T

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1. Magnitude of Chinese Communist Economic Assistance

In late December 1961 the Chinese Communists reportedly asked the Burmese not to insist on using more than \$42 million of the 1961 line of credit until after 1963. 4/ Because the projects planned at the end of 1961 included a 265-mile highway in Wa State and a diesel-engine and water-pump plant that subsequently have been canceled, 5/ it is probable that the \$42 million represented total obligations at that time. These cancellations bring the amount obligated down to an estimated \$25 million. Thus the Burmese can claim to have planned the disposition of one-third to one-half of the \$84 million credit that was extended to their government almost 3 years ago.

There has been so little productive activity under the Chinese credit that estimates of total drawings are difficult to make. The only tangible benefit that the Burmese have received under the credit was the delivery in April 1963 of 3,500 apple, peach, and pear seedlings. 6/ Other drawings against the credit have been limited to surveys for those construction projects thus far planned, recent technical assistance activities of Chinese Communist experts in Burma, and a number of feasibility studies presently underway. 7/ It has been estimated that only \$2 million had been drawn against the Chinese Communist credit by 30 June 1963. 8/ Thus, with the Chinese Communist \$84 million credit rapidly approaching the third anniversary of its extension and the halfway mark in the planned period of implementation, less than 3 percent of the total value has been delivered to Burma.

2. Projects Planned Under the Chinese Communist Credit*

By mid-1961 the Burmese had undertaken the planning of projects at the state and national levels, and the government had created a board that was to concern itself solely with implementation of the credit. 9/ In early October 1961 the government of Burma submitted to the Chinese some 49 different project proposals, 9 of which the Chinese agreed to review seriously. 10/ A Burmese delegation to China in December of

* For locations of Chinese aid projects in Burma, see the map, following p. 2.

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BURMA

Chinese Communist Economic Aid Projects

CONSTRUCTION PROJECTS

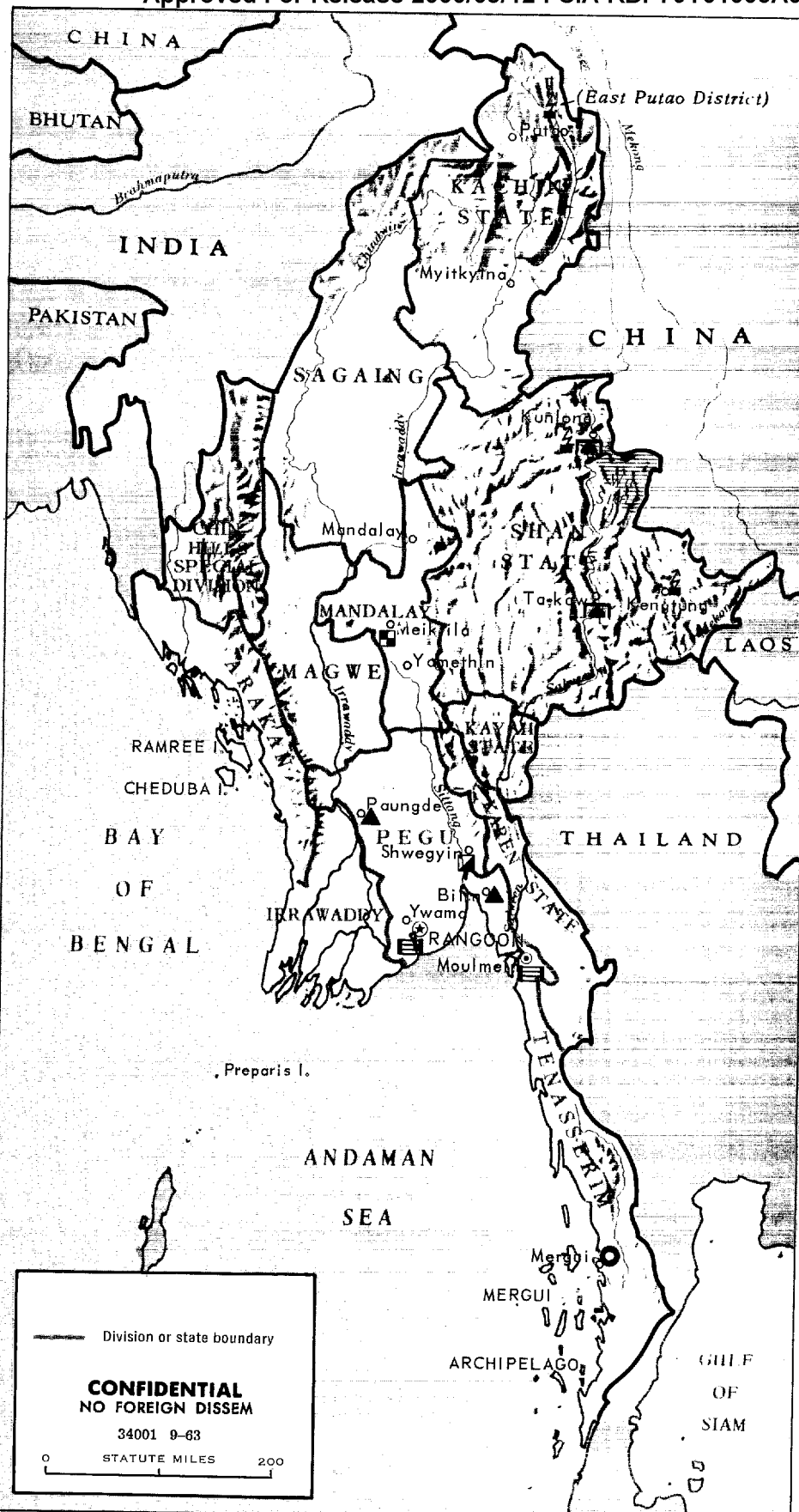
-  Hydroelectric plant
-  Plywood factory
-  Sugar refinery
-  Bridge
-  Tire factory
-  Yarn and textile mill
-  Pulp and paper mill
- Steel mill expansion
(Ywama, Insein District)
- Diesel engine and
water pump factory
(Unloading)
- Road (in Wa State)

TECHNICAL ASSISTANCE

- (Primarily in frontier areas of Kachin and Shan States)
- Improvement of sericulture
 - Animal husbandry
 - Fruit plantations
 - Tea plantations
 - Irrigation (Yamethin District)
 - Supply of fruit-tree seedlings
(Putao Frontier District)
 - Training of Burmese technicians in China

FEASIBILITY STUDIES

- Cement production in
Kayah and Kachin States
- Pottery industry in
Chin Hills Special Division
- Canning industry in
Shan State and Chin Hills
- Fruit essence plant in



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that year negotiated for additional construction projects to bring the total to 15. This delegation had been instructed by U Nu to discuss full utilization of the loan. 11/

The 15 construction projects, 7 technical assistance projects, and 5 feasibility studies that the Chinese agreed to undertake clearly did not obligate more than half of the \$84 million. The construction projects included three small hydroelectric plants, two plywood factories, two sugar refineries, two small bridges, a tire factory, a yarn and textile mill, a pulp and paper mill, a diesel-engine and water-pump factory, a 265-mile road, and the expansion of a government-owned steel mill. 12/ The road project, which would have been the most expensive of the group, was canceled in September 1962 by the Burmese. 13/ The diesel-engine and water-pump plant recently met a similar fate. The Chinese indicated in May of 1963 that they now felt there was an insufficient water supply available for the pulp and paper mill, the site of which they had surveyed in early 1962. 14/ In late July of 1963 the Chinese and the government of Burma had yet to agree on what gauge steel would be produced if the mill at Ywama were expanded, had not agreed on the cost for the hydroelectric plants, and had not considered a Burmese suggestion that the canceled diesel-engine plant be replaced by a factory to produce spare parts for textile mills. 15/

The hesitancy that pervaded negotiations on all of the construction projects contrasted distinctly with the activity of Chinese economic technicians in Burma. The surveys for the construction projects brought significant numbers of Chinese into the country in 1962 and early 1963. Other Chinese technicians recently have participated in the technical assistance projects and feasibility studies under the \$84 million credit. Of these projects, activity has been observed on the feasibility studies related to the development of cement production in the Kayah and Kachin States, of a pottery industry in the Chin Hills Special Division, and of canning industries in Shan State and the Chin Hills. 16/ Since the start of 1963, technical assistance has been given by the Chinese in all categories specified in the December 1961 protocol. 17/

- 3 -

S-E-C-R-E-T

S-E-C-R-E-T

Because the \$84 million credit provided for the import of commodities to generate currency for local costs of the construction projects, the beginning of a Chinese commodity import program has been anticipated for some time. U Tu Maung, chief accountant of the Union Bank of Burma, has confirmed reports that \$3.4 million worth of small machines to be sold to generate counterpart funds are scheduled to arrive in Burma before the end of September. 18/ Thus far, there has been no indication that any of the machinery has arrived in Rangoon. Because the total value of the machinery is large enough to require steps to organize its marketing in Burma, the absence of delivery information indicates that the Chinese probably are also behind schedule in this part of their program.

3. Prospects

The enthusiasm with which the Burmese initially approached the programming of the \$84 million credit has been blunted, but it is apparent that the government of Burma still expects some substantive yield from the Chinese aid. The 1961-62 Burmese budget estimates for Chinese aid, although subsequent implementation was retrenched to about \$200,000, initially anticipated \$7.4 million worth of deliveries, and the comparable estimate for 1962-63 is listed as \$16.8 million. 19/ The retrenchment in 1961-62 was partly a function of the coup d'état executed by Ne Win in March 1962, yet it is interesting to note that this period of political confusion did not affect significantly the scheduling of Chinese surveys. The anticipated \$16.8 million of Chinese aid for 1962-63 will clearly have to be adjusted downward, but this fact has not permanently discouraged the Burmese. In July 1962 a member of the loan implementation board criticized the Chinese for their desultory approach to negotiations, described progress as slow, and expressed doubt that the Chinese could deliver projects of quality, but he did not question the intention of the Chinese to undertake the construction of the projects planned. 20/ In March 1963 the Burmese newspaper Guardian reported that work on the Chinese construction projects that were still scheduled would begin in mid-1964, a starting date which was dismissed subsequently as conjecture by a responsible official of the government of Burma. 21/ A UN Industrial Survey Team recently

- 4 -

S-E-C-R-E-T

S-E-C-R-E-T

was reported in a Rangoon newspaper as having noted the credit as a significant contribution to Burma's "ample resources" for industrial development. 22/ Even when U Thi Han, Foreign Minister of Burma, recently spoke of the Chinese aid program as a source of humor to the Burmese, he went on to indicate that construction would begin in 1965 and run through 1967. 23/

The Chinese \$84 million credit must be described as seriously behind schedule in obligation and implementation if the planned time span for implementation is regarded as firm. If, on the other hand, the Chinese invoke the clause of the original agreement, which provides for extension of the 30 September 1967 deadline, it is equally clear that they will suffer a significant propaganda loss. The most advantageous course for them to follow would be that of implementing as much as possible of the \$25 million currently obligated without entering into negotiations for further projects. If the next year witnesses nothing more than further involved negotiations with the Burmese loan implementation board, the propaganda losses of the Chinese through their aid program may far outweigh any long-term gains. The beginnings of substantive aid to Burma could provide a valuable adjunct to the current position of political favor enjoyed by Communist China. At present, there is no firm indication that such assistance is imminent.

- 5 -

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Analyst:

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- 8 -

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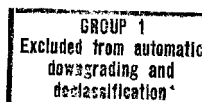
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